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C O N F I D E N T I A L SECTION 01 OF 02 FREETOWN 000230

SIPDIS

DEPARTMENT FOR AF/W (JHUNTER)

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TAGS: [ECPS](#) [EINV](#) [PGOV](#) [SL](#)

SUBJECT: SIERRA LEONE TELECOMMUNICATIONS IN TROUBLE?

Classified By: CDA Glenn Fedzer for reasons 1.4 (b/d)

11. (C) Summary: The telecommunications industry, viewed as a success story of foreign business investment in Sierra Leone, is clashing with the GoSL in its attempts to remain profitable. The three main Global System for Mobile Communications (GSM) cellular operators, Zain, Comium, and Africell, which together provide the vast majority of cellular phone service to the country, describe the operating environment as increasingly non-permissive. They have concerns that the GoSL is making a push to drive them out of business, perhaps in an effort to carve out market-share for Sierratel, which is a national entity and the sole Code Division Multiple Access (CDMA) wireless network provider, which recently expanded to cellular service. If GSM cellular providers are shut down or choose to divest, the results would be disastrous for the economy of Sierra Leone, as the CDMA network is underdeveloped and would not be able to handle a huge influx of customers. End Summary.

12. (C) In 2008, the telecoms industry accounted for approximately 16% of Sierra Leone's GDP. For 2009, telecoms is forecasted to provide around 40% of GDP, largely due to the general collapse of the mining industry in Sierra Leone. Despite their status as some of the only functional high-tech businesses in the country, both Zain and Africell reported large losses in 2008 (Note: The validity of these reports was questioned by Atlas Communications, a U.S.-based newcomer to the market who claimed that Africell was most definitely not in the red. End Note.).

13. (C) The GoSL continues to issue licenses to new telecoms companies, seemingly without regard for market forces or validity of business plans. The licenses cost USD 1 million up front to procure, and have recently been issued to companies from Libya, Dubai, and Pakistan, among others. Some of these companies list telecoms low on their list of business interests, and it is unclear whether they intend to actually operate in the market at all.

14. (U) Currently, the GoSL taxes the GSM operators at 47.5%. The government is implementing a GST, but is not willing to cancel the other taxes that a GST would normally replace. Over the course of the current economic crisis, the value of the Leone has depreciated approximately 10%, and GSM operators announced a planned increase in tariffs in early April in an effort to preserve profits. The GoSL's telecoms regulatory body, the National Telecommunications Agency (NATCOM), came down hard on the operators, claiming that the companies had failed to provide adequate notice of the price increase to consumers as required by the 2006 Telecommunications Act. NATCOM demanded that the increase be canceled, and the Minister of Communications and Information chose to politicize the conflict, making multiple radio and newspaper statements in the first two weeks of April criticizing GSM operators for raising rates and stealing money from Sierra Leoneans. Some journalists went so far as to call for the resignation of the Comium, Zain, and Africell CEO's for their "unfair" business practices. The operators

canceled the planned increase and entered into negotiations with NATCOM.

15. (C) GSM operators appealed to NATCOM with a compromise plan, asking that they be allowed to raise their selling price for distributors, who would essentially pay a premium to carry the GSM phone cards in their stores, and would not be permitted to pass the burden of the increase on to individual consumers. According to a GSM operator source, this request was granted, and an agreement with NATCOM was signed in mid-April. NATCOM denies the existence of this agreement. By late April, the telecoms companies were pushing NATCOM to honor the agreement they believed had already been negotiated, but NATCOM refused to do so. The compromise that was eventually announced allowed GSM operators to raise consumer prices per card by a very small amount (100 Leones, or 3 U.S. cents) beginning May 18th.

16. (C) The GoSL announced the inauguration of cellular service by the government-funded Sierratel CDMA network, which requires its own technological infrastructure, in mid-April. This network's start-up costs were partially funded by \$17 million loan from the Chinese government to the GoSL, although GSM operators estimate that only about \$5 million of that loan money has actually been invested in CDMA infrastructure, with the remainder either not yet invested, or diverted by the GoSL for other uses or into individuals' pockets. Sierratel states that revenue from the CDMA service will be used not only to grow the business, but also to pay down the loan, which puts immense pressure on the GoSL to ensure that Sierratel is profitable. Some GSM sources are very concerned that the GoSL, including officials at NATCOM,

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now have a clear incentive to push GSM to the side and shepherd Sierratel into profitability, regardless of the quality of service provided. GSM analysts estimate that an additional expenditure of USD 30-40 million would be required to bring the CDMA network up to the maturity level of the GSM structure.

17. (C) Comment: It is disheartening to hear the CEO of Comium describe Sierra Leone as "an incredibly difficult place to turn a dollar of profit," comparing the business environment unfavorably to Nigeria, Siberia, and Kazakhstan. These major investors, feeling themselves locked in a battle for survival with the GoSL, are not likely to recommend Sierra Leone as a good place for prospective investors. Post is concerned that the telecoms licenses currently being issued may provide illegitimate businesses adequate cover for illicit trade or money laundering activities. Post is also concerned that the GoSL (particularly the Minister of Communications and Information) may not understand the extent to which the CDMA network is unable to deliver adequate service to those who would be left without communication in the event that the government shut down one or all of the current GSM providers. End Comment.
FEDZER